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KORN/FERRY INTERNATIONAL

1986 ANNUAL BOARD OF DIRECTORS STUDY

OF INSURANCE COMPANIES

KORN/FERRY INTERNATIONAL

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Introduction

For the past 13 years, Korn/Ferry International has surveyed 1,000 of the nation's most prominent corporations to identify and gain insight into significant trends affecting the structure and behavior of corporate boards. As part of our annual study, we make a special study of the data pertaining to the boards of insurance company participants.

This year, of the record 592 corporations that responded to our annual study, 10 percent were insurance companies. Industrial and service corporations accounted for 71 percent of the total, banks and other financial institutions, 15 percent and retailers, five percent.

Summary of Findings

On a question-by-question basis, the following findings are directly related to the insurance industry respondents (Table 1). Whenever appropriate, comparisons are made with all other responding corporations in our study.

1. Size of Board (Table 2)

The boards of directors of insurance companies have an average of 16 members, the same as reported last year. This is two more than the average of 14 for all respondents. Banks and financial institutions continue to have the largest boards, averaging 20.

2. Inside Directors vs. Outside Directors (Table 2)

This year, insurance boards average three inside and 13 outside directors compared with five inside directors and 11 outside directors reported in 1984. This indicates the growing emphasis placed on outside representation. The averages for all respondents is four inside and 10 outside directors.

3. Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

Seventy-five percent of this year's insurance respondents reported that their chairman is also the chief executive officer, compared with the average of 80 percent for all companies. Fifty-two percent report that their chief executive officer is also their chief operating officer, higher than any other responding group. This combination of responsibilities was reported by only 36 percent of all respondents.

4. Board Composition (Table 4)

Senior executives of other companies and retired executives of other companies comprise the two major sources of outside directors for insurance company boards. Each group was cited by 85 percent of our respondents. This suggests that insurance companies are continuing to seek outside directors who are independent of the company. These executives are sought for the considerable management experience they bring to a board position. In fact, 89 percent of the insurers cited broad management experience as the primary consideration in

asking a prospective director to sit on their boards -- more than any other responding group.

More insurers' boards seat women directors than the overall average for all companies (60 percent vs. 45 percent) (Table 4A). The presence of women serving on insurance company boards has increased from 53 percent reported in our Ninth Annual Study. Representation by ethnic minorities on insurance boards declined from the previous year (from 29 percent to 25 percent), as it did for all respondents' boards. Both women and ethnic minority board members are drawn primarily from the ranks of academicians, senior executives of other companies, former government officials and attorneys who do not provide legal services to the company (Table 4B). More ethnic minority members are drawn from the ranks of attorneys who do not provide legal services than any other source, 47 percent compared with 27 percent last year.

A high percentage of insurance companies report seating academicians on their boards. In 1985, 69 percent were reported, well above the overall average of 55 percent. Similarly, the percentage of insurers having commercial bankers on their boards increased from 45 percent reported in 1984 to 62 percent reported this year, well above the 31 percent reported for all responding boards. Representation of both investment bankers and major shareholders doubled last year's averages to 31 percent and 29 percent, respectively (Table 4A).

5. Committees (Table 5)

The audit, compensation and executive committees continue to be the most prevalent standing committees among the insurance respondents. Insurers continue to lead all other responding groups in the use of the executive (90 percent vs. 78 percent overall), and finance (65 percent vs. 38 percent) committees. However, the percentage reporting a benefits committee declined to 14 percent from 16 percent and remains the lowest reported of all responding groups. Although the insurers' use of a corporate ethics committee declined from 16 percent to 10 percent this year, it remains higher than the six percent reported by all respondents. Fifty-eight percent have a nominating committee -- up from 53 percent in 1984, and about the same as the overall average (Table 5A).

The finance and executive committees are the largest, averaging seven members. The size of the compensation committee declined back to the four members reported in 1983 and 1981, from the six members reported last year. The audit, compensation and benefits committees are composed entirely of outside directors (Table 5B). The executive, benefits and public affairs committees each reported an increase in outside directors. The finance committee meets most frequently, averaging 13 meetings per year, up from 10 and eight meetings reported in 1981 and 1984, respectively.

6. Compensation (Table 6)

Ninety-two percent of the insurance company respondents compensate their outside directors on an annual plus per-meeting basis. Only two percent use the per-meeting only method of payment and six percent pay an annual fee only, the same as last year.

- **Annual plus Per-Meeting Fee (92 percent of the respondents)**

The average total yearly compensation for outside directors of insurance companies has increased 33 percent since 1981 from $13,140 to $17,490, and seven percent compared with last year ($16,400). However, insurers are 11 percent below the $19,544 yearly average reported for all respondents. The components of the total compensation include a $12,098 average annual fee and a $625 average per-meeting fee (Table 6A). The average annual retainer rose eight percent, but the per-meeting fee decreased slightly from the 1984 per-meeting compensation.

The upper quartile average, included in this section for comparative purposes, is $26,786, slightly below the $27,375 average for all respondents (Table 6B).

7. Committee Compensation

Ninety-four percent of the insurers compensate their outside directors additionally for serving on a committee. The most prevalent form of payment is the per-meeting fee only,

used by 88 percent to pay committee members, and 69 percent to pay their chairmen. Conversely, 22 percent of committee chairmen, and 12 percent of the members receive an annual retainer.

Committee member fees average $563 per meeting, somewhat lower than the average of $616 paid to all respondents. Committee chairmen are generally compensated at a higher rate than committee members, averaging $614 per meeting.

8. Additional Compensation Information (Table 7)

Twenty-eight percent of the insurance company respondents raised board fees during the past year, down from 43 percent in 1984, and less than the overall average of 34 percent. The average fee increased $3,171, 24 percent higher than last year's increase of $2,560. In 1985, the average increase for all respondents was $2,777. Twenty-four percent project an increase during the coming year. Similar to all participants, 84 percent of the insurance company respondents believe that their outside directors are adequately compensated. In 1984, only 69 percent of the insurers felt that outside director compensation was adequate.

The highest paid insurance company director earned $25,092 in 1985, exclusive of consulting fees, up from $24,890 last year, and $20,600 as reported in our Ninth Annual Study. This is nine percent less than the $27,424 paid on average to the highest-compensated outside directors of all companies. However, the upper quartile average of $43,500 is five percent

above the $41,539 upper quartile average for all respondents. Only service companies and industrials with revenues over $5 billion (Table 7) reported a higher average for this category. Fourteen percent of the insurance respondents report an average of two directors who also receives consulting fees.

Benefits continue to increase in importance as a part of compensation plans for outside directors of insurance companies. Twenty-two percent now offer life insurance and 69 percent have matching educational gifts programs (up from 61 percent). Seventy-five percent have plans that allow deferral of board fees until retirement, and 24 percent offer retirement benefits, up from 12 percent in 1984. Travel expense reimbursement and directors' liability insurance are provided by 96 percent and 92 percent, up from 92 percent and 84 percent, respectively.

-Stock Ownership

Seventy-one percent of the insurers stated that stock options should not be part of directors' compensation, up from 49 percent last year but compared with 81 percent for all respondents. Fifty-five percent of the insurance companies believe that all directors should own some shares of company stock, up from the 39 percent who responded affirmatively last year. In comparison, 75 percent of all respondents believe their directors should own shares of stock.

Insurance companies report that an average of 73 percent of their outside directors own stock in their companies.

Forty-seven percent state that an average of five outside directors own from one to 1,000 shares, 39 percent have an average of four directors with 1,000 to 5,000 shares, and 37 percent report four directors owning over 10,000 shares of company stock.

-Liability Insurance

Seventy-one percent of the insurance companies responded that directors' liability insurance premiums were increased for those with policies up for renewal in 1985. Of all companies surveyed, only banks and other financial institutions experienced more increases in premiums. Additionally, insurance companies led all others in the percent of increase, at 431 percent, compared with the overall average of 362 percent.

Thirty-nine percent of the insurance respondents experienced a decrease in total dollar coverage, the most of any reporting industry sector. The decline in total dollar coverage went from $36 million to $23 million or a 36 percent drop, compared with a 42 percent decline for all respondents.

Twenty-four percent are considering self-insurance, compared with the overall average of 19 percent.

9. Board Practices and Policies (Table 8)

For the ninth consecutive year, the insurance company respondents averaged seven regular board meetings per year, one less than the average for all respondents. Although

twenty-eight percent report that they hold at least one of these meetings at a branch subsidiary, most meetings are at corporate headquarters.

An outside director of an insurance company devotes an estimated 129 hours annually to board-related business. This is significantly higher than last year's 111 hours, and the 114-hour average for all respondents. The upper quartile average for insurers, however, is 185 hours -- lower than the 196 overall average (Table 8A).

Board chairmen of insurance companies report devoting an average of 184 hours -- more than any other responding group, except for the largest industrials, $5 billion and over.

If compensated on an annual plus per-meeting fee, members of insurers' boards earned an average $136 per hour this year, down from the $148 average reported in 1984.

Twenty-six percent of the insurance respondents reported an outside director resignation during the past year (compared with 32 percent for all respondents), mainly due to retirement. Twenty-nine percent expect a board vacancy during the coming year. This is an improvement over last year's expected vacancy rate of 49 percent.

Insurance respondents continue to select outside directors primarily based on recommendations by the board chairman and board members (each cited by 89 percent) and the use of the nominating committee (reported by 65 percent) (Table 8B).

Broad management experience remains the primary

consideration in asking a prospective director to sit on the board (89 percent), followed by personal stature (60 percent). Strong financial skills was cited by 48 percent, and more than any other industry group (Table 8C).

Only 14 percent of insurance company respondents had a prospective director decline an invitation to serve on the board, less than any other responding group, and down from the 20 percent reported last year by insurers (Table 8D). The refusal rate was sharply down from the 35 percent reported in 1981. The time commitment involved continues to be the major reason for a prospect's declining an invitation (57 percent).

Ninety percent of the insurance respondents have mandatory retirement policies. The average retirement age is 67 for inside directors (down from 68 in 1984), 70 for outside directors, and 69 for board chairmen.

10. Issues (Table 9)

When asked to rank the relative importance of various issues facing corporate boards today, financial results placed well above the other issues. Ninety-two percent of insurers ranked financial results first, second or third, up from 82 percent last year. The second most important issue, strategic planning was ranked first, second or third by 60 percent, followed by industry competition, at 39 percent. Day-to-day operations decreased in importance from 39 percent last year to 25 percent in 1985. When asked to rank the most important issue five years from now, again financial results placed first

(65 percent), followed by strategic planning cited by 51 percent and industry competition cited by 28 percent.

* * *

TABLE 1 - PARTICIPATING COMPANIES

Fifty-six of America's major insurance companies participated in our Thirteeth Annual Study.

Size (Assets)	No. of Insurers	%
Under $2 billion	9	16.1%
$2 billion and over	47	83.9%
TOTAL	56	100.0%

Stock Exchange	No. of Insurers	%
New York Stock Exchange	21	37.5%
American Stock Exchange	--	--
Over-the-Counter	9	16.1%
Mutual/Private	26	46.4%
TOTAL	56	100.0%

TABLE 2 - PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under $2 billion	4	11	15
$2 billion and over	3	13	16
Average	3	13	16

TABLE 3 - CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer? Is the Chief Executive Officer also the Chief Operating Officer?

	Chairman/CEO %	CEO/COO %
Yes	75.0%	51.9%
No	23.1%	48.1%
No response	1.9%	---
	100.0%	100.0%

TABLE 4 - BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

Function	1981 Insurance Companies	1985 Insurance Companies	1985 All Companies Surveyed
Senior Executive (other companies)	90.0%	84.6%	81.8%
Retired Executive (other company)	65.0%	84.6%	68.2%
Academician	63.3%	69.2%	54.5%
Retired or Previously Employed Corporate Officer	63.3%	56.5%	53.8%
Woman	53.3%	59.6%	45.0%
Attorney (does not provide legal services to the company	38.3%	51.9%	31.5%
Commercial Banker	61.7%	61.5%	30.8%
Former Government Official	26.7%	28.8%	29.6%
Major Shareholder (not officer of the company)	15.0%	28.8%	29.4%
"Professional" Director	15.0%	19.6%	21.2%
Ethnic Minority Representative	21.7%	25.0%	25.4%
Attorney (provides legal services to the company)	28.3%	26.9%	24.9%
Investment Banker	16.7%	30.8%	24.2%
Non-U.S. Citizen	8.3%	5.8%	14.0%
International Executive (American)	5.0%	3.8%	8.7%

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	29.0%	26.7%
Senior Executives (other companies)	22.6%	13.3%
Attorneys (do not provide legal services)	19.4%	46.7%
Former Government Officials	9.7%	13.3%
Retired Executives	9.7%	6.7%

TABLE 5 - COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	1981 Insurance Companies	1985 Insurance Companies	1985 All Companies Surveyed
Audit	98.3%	98.1%	97.2%
Compensation	76.7%	82.7%	82.2%
Executive	91.7%	90.4%	78.2%
Nominating	55.0%	57.7%	59.2%
Finance	65.0%	65.4%	38.2%
Benefits	20.0%	13.5%	36.5%
Public Affairs	18.3%	13.5%	10.6%
Corporate Ethics	15.0%	9.6%	5.9%

5B. What is the composition of each committee?

Committee	Average Inside Directors	Average Outside Directors	Average Number Directors
Audit	0	4	4
Compensation	0	4	4
Executive	2	5	7
Nominating	1	4	5
Finance	2	5	7
Benefits	0	3	3
Public Affairs	1	5	6
Corporate Ethics	1	4	5

5C. How many committee meetings were held during the past twelve months?

Committee	1981 Average No. of Meetings	1984 Average No. of Meetings	1985 Average No. of Meetings
Audit	3	4	3
Compensation	3	4	3
Executive	6	5	6
Nominating	2	2	2
Finance	10	8	13
Benefits	3	2	2
Public Affairs	3	3	4
Corporate Ethics	2	2	3

TABLE 6 - COMPENSATION

6A. Annual plus Per-Meeting Fee (92.0% of the Respondents)

Annual Fee Amount	%
Under $5,000	4.3%
$ 5,000 - $ 6,999	6.5%
$ 7,000 - $10,999	30.4%
$11,000 - $13,999	21.8%
$14,000 and over	37.0%
TOTAL	100.0%
Average Annual Fee	$12,098

PLUS

Amount Per Meeting	%
Under $250	2.2%
$250 - $499	4.3%
$500 - $599	26.1%
$600 - $799	39.1%
$800 and over	28.3%
TOTAL	100.0%
Average Per-Meeting Fee	$625

EQUALS

Total Annual Compensation	%
Under $7,000	4.3%
$ 7,000 - $10,999	10.9%
$11,000 - $13,999	17.4%
$14,000 - $16,999	17.4%
$17,000 - $19,999	17.4%
$20,000 - $24,999	19.6%
$25,000 and over	13.0%
TOTAL	100.0%
Average Total Annual Compensation	$17,490

6B. Annual plus Per-Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Insurance Companies	$17,490	$26,786
Banks & Other Financial Institutions	$17,462	$26,938
Retailers	$22,141	$27,520
Service Companies	$18,751	$27,456
Industrials		
Under $200 million	$14,426	$21,571
$200 million - $399 million	$14,013	$19,088
$400 million - $599 million	$15,492	$19,250
$600 million - $999 million	$19,557	$27,033
$1 billion - $2.999 billion	$21,949	$30,147
$3 billion - $4.999 billion	$24,534	$30,095
$5 billion and over	$26,126	$33,332
Average	$19,544	$27,375

TABLE 7 - ADDITIONAL COMPENSATION INFORMATION

How much did the highest paid director receive in 1985 for all board services exclusive of any consulting arrangement?

Amount	%
Under $11,000	13.3%
$11,000 - $16,999	15.6%
$17,000 - $24,999	24.4%
$25,000 - $29,999	13.3%
$30,000 - $39,999	17.8%
$40,000 and over	15.6%
TOTAL	100.0%
Average	$25,092

Type and Size of Company	Average Compensation	Upper Quartile Average
Insurance Companies	$25,092	$43,500
Banks & Other Financial Institutions	$27,878	$38,709
Retailers	$27,176	$37,650
Service Companies	$26,135	$43,675
Industrials		
Under $200 million	$17,162	$28,438
$200 million - $399 million	$18,604	$29,452
$400 million - $599 million	$18,745	$28,643
$600 million - $999 million	$25,872	$39,133
$1 billion - $2.999 billion	$27,680	$37,589
$3 billion - $4.999 billion	$32,174	$40,929
$5 billion and over	$42,468	$68,747
Average	$27,424	$41,539

TABLE 8 - BOARD PRACTICES AND POLICIES

8A. How many hours (estimated) do directors spend annually on board matters including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	7.7%
41 to 70	30.8%
71 to 100	15.4%
101 to 130	19.3%
131 to 160	11.5%
161 and over	11.5%
No Response	3.8%
TOTAL	100.0%
Average	129 Hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Insurance Companies	129	185
Banks & Other Financial Institutions	99	160
Retailers	105	198
Service Companies	103	176
Industrials		
Under $200 million	98	166
$200 million - $399 million	104	198
$400 million - $599 million	108	182
$600 million - $999 million	99	159
$1 billion - $2.999 billion	116	202
$3 billion - $4.999 billion	132	219
$5 billion - and over	145	236
Average	114	196

8B. How are outside directors located for the board?

	%
Recommended by chairman	88.5%
Recommended by board members	88.5%
Nominating committee	65.4%
Recommended by other corporate officers	34.6%
Referred by executive acquaintances	19.6%

8C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Broad Management Experience	88.5%
Personal Stature	59.6%
Strong Financial Skills	48.1%
Specific Industry Experience	36.5%

8D. Have any prospective directors declined an invitation to serve on the board during the past year?

	% 1984	% 1985
Yes	19.6%	13.7%
No	74.5%	86.3%
No Response	5.9%	--
TOTAL	100.0%	100.0%

TABLE 9 - ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	58.5%	88.5%	92.3%
Strategic planning	24.0%	46.2%	59.6%
Industry competition	6.0%	15.4%	38.5%
Day-to-day operations	6.0%	10.9%	25.0%
Financing/Capitalization	-	-	19.2%
Managerial succession	6.0	11.5%	15.4%
Mergers/Acquisitions	-	3.8%	11.5%
Government relations	2.3%	3.8%	7.7%
Executive compensation	-	1.9%	7.7%

PROFILE OF KORN/FERRY INTERNATIONAL

Korn/Ferry International is the largest executive search firm in the world today.

Headquartered in New York and Los Angeles, Korn/Ferry maintains a worldwide network of 37 offices in 16 countries and 35 cities.

Korn/Ferry's practice is broad-based, serving the specific needs of clients through 10 specialty search divisions:

Board Services
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Fashion/Retail
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Health Care
High Technology
Hospitality/Leisure
Real Estate

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